

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

EXPERIMENTAL PERIODICALS )  
CO-PALLETIZATION DROPSHIP )  
DISCOUNTS, 2002 )

Docket No. MC2002-3

VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.  
COMMENTS ON PROPOSED SETTLEMENT  
(December 10, 2002)

These comments are submitted by Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. ("Valpak") in response to the schedule set out in Order No. 1354. The comments were due December 9, 2002, and a motion for late acceptance of the comments is being filed today with the Commission.

A proposed stipulation of settlement joined in by most parties to this docket in all likelihood will be submitted to the Commission for its review and approval. Valpak neither supports nor opposes the settlement, and for that reason will decline to sign the stipulation. Valpak is less interested in this particular niche classification than it is in the policies which will be embodied in the Commission's Opinion and Recommended Decision in this case. To ensure that these policy issues are fully aired, Valpak respectfully submits these comments for consideration by the Commission.

Valpak supports the creation of niche classifications and the approval of Negotiated Service Agreements (NSAs) if they are based on sound rate and classification principles. In many cases, niche classifications and NSAs can be expected to involve rate reductions for mailers who undertake additional, unrequired work. Such changes in mailer behavior usually

result in the Postal Service enjoying cost savings. The instant proceeding is a classification case of this kind. Specifically, participating mailers will both dropship and shift from the use of sacks to pallets. Because of these two changes in mailer behavior, three types of Postal Service cost savings, not already recognized in the existing rate structure, are anticipated to occur:

- (i) savings associated with handling pallets instead of sacks;
- (ii) transportation savings associated with entering editorial material in a zones 1 and 2 office, instead of in a more distant originating office; and
- (iii) transportation savings associated with entering editorial material in a destination office instead of in a zones 1 and 2 office.<sup>1</sup>

For reasons that appear to be unexplained by the Postal Service, the savings for preceding element (i) are not recognized in the proposed discount. Nor is recognition given to the savings in element (ii), apparently in acknowledgment of the policy on the unzoned editorial rate. In the end, the only savings acknowledged as a basis for the proposed discounts are those in element (iii), and only a portion of these savings is passed through in the discount. Because of the apparent limitation on the number of elements of savings recognized, and because of the low passthrough on the savings associated with the element that is recognized, the proposed classification change, at least in the short term, would be expected to improve the Postal Service's financial position. Also, since participating mailers would not be expected to

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<sup>1</sup> Valpak notes that non-transportation savings associated with entering pallets in a zones 1 and 2 office instead of in an origin office, the latter potentially being many zones away, are recognized neither in the existing rate structure nor in the three elements of savings enumerated in the text, and are therefore not at issue in this case.

engage in a money-losing venture, **they** would be expected to gain as well. This would appear, therefore, to be what is often called a win-win situation.

Beyond the specifics of the proposal lie important policy issues that, Valpak submits, should be considered carefully by the Commission. The most important principle that is raised in the instant niche classification is a fairness issue implicit in deviations from the current system of rate averaging. Virtually all rate structures contain some degree of rate averaging. This means that different mailers pay the same rate while the costs to the Postal Service of handling their mail differ. When this occurs, higher-cost mailers can be said to be receiving a **benefit** (by their paying a lower rate than would obtain for their mail alone), essentially financed by imposing a burden on lower-cost mailers (by their paying a higher rate than would otherwise obtain for their mail alone). If the higher-cost mailers stop their higher-cost mailing ways, the Postal Service realizes savings. If, based on these savings, a discount from the average rate is provided to only the higher-cost mailers, then they will be paying a final rate that is lower than the rate still being paid by the lower-cost mailers, and the financial burden on the lower-cost mailers will still be in place. This situation raises a question about whether it is fair to allow the formerly higher-cost mailers to keep some or all of the **benefit** they had been receiving — that is, keep it in the form of a discount — and whether it is fair for the two final rates to differ, with the formerly higher-cost mailer receiving the lower of the two rates.

A simple example will clarify this issue. In First-Class Mail, the single-piece rate for a 2-ounce letter is equal to the single-piece rate for a 2-ounce flat, each rate being \$0.60. Suppose, as one might expect, that the flat costs the Postal Service \$0.10 more than the letter to process and deliver. If the flat is reconfigured as a letter, and the Postal Service saves

\$0.10, can the associated mailer, who formerly sent the flat, be given a discount of \$0.08 (assuming a passthrough of 80 percent) and thereby pay a final rate of \$0.52? In short, is it fair for the mailer who originally sent 2-ounce letters to continue paying the elevated rate of \$0.60, while the mailer who originally sent 2-ounce flats, and who now sends 2-ounce letters, pays a final rate of \$0.52? This troublesome situation becomes even more so if the two mailers are competitors.

The instant proceeding contains shades of the problem just described. Mailers of sacked Periodicals and palletized Periodicals pay the same rates, even though, *ceteris paribus*, the Postal Service's costs of routing their respective mail to its destination differ.<sup>2</sup> Similarly, at least with respect to the editorial pound rates, mailers of, say, zone-6 editorial material pay the same rates as mailers of destination-SCF editorial material. Therefore, at least with respect to the issues of sacks versus pallets and of origin versus destination entry, the sack-zone-6 mailers are receiving a significant **benefit** that is built into the rate structure and paid by other mailers. Consideration must be given to the fairness of allowing the sack-zone-6 mailers to stop their higher-cost activities, and then receive a discount based on the Postal Service's savings. Certainly the lower-cost mailers who were paying the **benefit** are being given no concession. Furthermore, the formerly sack-zone-6 mailers will be paying lower absolute rates than mailers who already were entering pallets at a destination facility.

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<sup>2</sup> It is true that two pallet discounts were implemented for Periodicals following Docket No. R2001-1. These discounts, however, are based on savings that occur after the sacks and pallets reach the destination office, and they are available whether or not the Periodicals involved are co-palletized.

**Conclusion**

Both the Commission and mailers are facing the prospect of more niche classification cases. In order to help the Postal Service in its process of considering and developing such cases, Valpak requests that the Commission give specific attention to the issue raised in these comments and provide as much guidance as possible on how this issue should be viewed and treated.

Respectfully submitted,

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**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.

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John S. Miles

December 10, 2002